Secretary of the Air Force
Office of Legislative Liaison

C O N G R E S S I O N A L
HEARING RESUME

106th Congress

Date: 22 June 00

SUBJECT: **Hearing on Cost of Processing TRICARE Medical Claims**

COMMITTEE: **House Budget Committee**
Task Force on Defense and International Relations

CHAIRMAN: **The Honorable Mac Thornberry (R-TX)**

MEMBERS PRESENT IN BOLD:

REPUBLICANS	DEMOCRATS
Mac Thornberry (R-TX)	**James Moran (D-VA)**
Paul Ryun (R-WI)	David Minge (D-MN)
Joseph Pitts (R-PA)	Darlene Hooley (D-OR)
Charles Bass (R-NH)	Tammy Baldwin (D-WI)
Christopher Shays (R-CT)	

GUESTS ATTENDING:
Steven Buyer (R-IN), Chairman, House Armed Services Committee
John Spratt (D-SC), Ranking Member, House Budget Committee

WITNESSES: See Attached

Information contained in this resume was obtained during an open hearing. It will not be released outside of the Department of Defense (DoD) agencies until published hearing transcripts have been released by the Committee, and only to the extent it is in accord with published hearing procedures.

Prepared by: Lt Col Meade Pimsler Date: 23 June 00 Phone number: 693-9120

PANEL MEMBERS

1. Dr. H. James T. Sears, Executive Director, TRICARE Management Activity
2. Mr. Steve P. Backhus, Director, Veterans' Affairs and Military Health Care Issues; Health, Education, and Human Services Division, General Accounting Office
3. Mr. William J. Meyer, Senior Vice President, Palmetto Government Benefits Administrators

EXECUTIVE SUMMARY

The Task Force focused on the cost of TRICARE claims processing, which costs approximately $7.50 per claim vs. $1.78 per claim for Medicare. Reasons for the differences were discussed, including 1) the fact that Medicare is has a single fee for service structure nationally, whereas TRICARE is a managed care plan with three different benefit structures and 12 regions all of which must negotiate and establish independent provider networks, 2) differences in handling claims inquiries by providers, and 3) economies of scale and the lack of leverage available to Tricare relative to Medicare to enforce new business practices on participating providers. The savings from streamlining the review process and expanding implementation of electronic claims filing were extensively discussed, especially impediments to TRICARE expanding electronic claims filing. The biggest problem was lack of incentives for provides to file electronically, given that most filed less than 10 claims with TRICARE per year, and TRICARE claims accounted for only 5-10% of income. The DoD's efforts in the area of fraud investigation and recovery were also questioned. Based on industry data, GAO has estimated that TRICARE loses up to $580M/year to fraud, waste and abuse. However, of the 41M claims filed, only 17 cases have been accepted by DoD for fraud investigation. Dr. Sears agreed that DoD needed to be more aggressive in this area, but pointed out that pre-payment auditing of claims reduced the number of such claims that were ever paid, and also that that a case might involve thousands of individual claims, so the number was perhaps misleading. GAO stated that DoD was making improvements in this area. Finally, Dr. Sears was questioned about the primary irritants for TRICARE beneficiaries. He responded that access and standardized appointment types were the main problems, but that both were being addressed. Members stressed the utility of a single toll free number for appointments, and questioned why this could not be immediately accomplished. Dr. Sears responded that contracts would have to be amended, but that TRICARE is moving towards a VISA or USAA model for claims, advice, and appointments (one national number). An IPT is studying it and it could be on-line by the fall of 2001. The meeting closed with witnesses stating they believed that TRICARE claims costs could be reduced to $4-5/claim if all the initiatives and suggestions were implemented.

The Subcommittee was called to order at 1005.

OPENING REMARKS

Chairman Thornberry:
The Chairman welcomed the witnesses. Stated this was the eighth hearing of the Task Force seeking to make government agencies more efficient. Pointed out the President's Budget did not support all JCS imperatives for TRICARE, and that this had significant impact on our national security, on recruiting and retention. Pointed out the

NDAA provided for many quality of life (QoL) improvements, including 3.7% pay raise, food stamps, and retiree benefits. Praised CM Buyers committee for initially reporting that Medicare spent $1.78 processing each claim, while TRICARE spent almost $8.00. The purpose of the hearing was to shed light on the process and to identify potential savings. Stated that all written statements will be made part of the record.

Mr. Shays:
Stated that TRICARE complaints, rather than lack of spare parts or OPSTEMPO, dominated discussion at a meeting he had with F-15 pilots recently. Improving TRICARE claims processing will improve the QoL of millions of personnel and dependents. Cited a GAO report finding that TRICARE was complex, and that complexity resulted in unnecessary costs, opportunities for fraud, etc. Asserted that TRICARE should emulate Medicare in streamlining the claims process, such as electronic filing and standardized claims.

Mr. Spratt:
Welcomed the witnesses. Stated that this hearing focuses on TRICARE, which was not working as well as it must, and that there were significant problems with claims processing. Stated his belief that DoD has consistently underestimated TRICARE costs, and the amendments offered in the House (Taylor) and Senate (Warner) could dramatically increase the cost of the program. We need to know whether we have provided adequate administrative support. Need to "get to the bottom of this" and proceed with the hearing.

Mr. Moran:
Thanked the committee members and Mr. Spratt and Mr. Buyer for attending. This is a very important hearing and subject because of impact on military readiness, recruiting and retention. Health care is the most prevalent complaint from DoD personnel, dependents, and retirees. Retiree health is very controversial, and Mr. Moran has proposed FEHBP eligibility for retirees. DoD is the only major employer that does not provide health care for former employees. House bills addressing this will be very expensive if implemented. Claims processing is a major irritant and can affect credit rating of military members--a major QoL issue. TRICARE spends far more per claim than HCFA. More can be done to make TRICARE more user friendly and efficient.

Mr. Buyer:
Tanked the committee for the invitation to attend. There are very real and tangible benefits to a bipartisan approach. Cautioned about the great expense inherent in some of the proposals before Congress, and that infrastructure is a real limitation to implementation of any such bill and the expectations it generates in the retiree community. Mr. Buyer does not believe that anything "magical" should happen to a retiree upon turning 65. Congress needs to tell the next administration that in FY 2003 there will be a very big bill to pay, on the order of $10B. About $17B of the total DoD budget funds the MHS, and claims processing alone accounts for $275M. More money is needed, about $6B over the next five years. There is a problem with the model DoD uses to provide MHS cost estimates, and as a result the MHS has been chronically underfunded. TRICARE lags behind Medicare in more efficient business practices, and might be wasting as much as $100M/year due to inefficiencies in claims processing. There is broad agreement among stakeholders the system is outmoded, costs too much. It is "the best Model-T that money can buy." HASC has recommended more streamlined, automated claims processing in the authorizations bill. Mr. Buyer applauded the Budget Committee for choosing this a topic for hearings.

WITNESS STATEMENTS

Dr. Sears' Statement

Began by explaining that TRICARE and Medicare were not comparable in many important respects that impacted claims processing. Medicare was a single fee-for-service plan, while TRICARE is a three-option HMO. In addition, TRICARE has contracts and costs that differ across regions. Used cesarean sections an example of how HMO type review saves money: clinical review marginally increased administrative costs but reduced claims costs by 50%. Offered other examples as well. Another significant difference is the size of the beneficiary pool (900M vs. 32M). The two organizations have different economies of scale, and TRICARE is a more comprehensive program. TRICARE has far less leverage in the provider community than does Medicare to require electronic claims filing. Medicare accounts for more than half of provider income, and TRICARE accounts for on average less than 10 claims/year/provider. There is no incentive for providers to file electronically because >90% of claims are paid within 30 days. TRICARE has identified impediments in the claims adjudication process and many have already been removed. However, cautioned that streamlining to remove review also make program more vulnerable to overuse, abuse, and fraud. TRICARE is moving forward to increase of electronic claims filing using web-based tools. Overall 50% of claims are filed electronically (100% for prescriptions, 17% for medical visits). In areas where this is happening claims costs are down about $2.00, and there is improved data quality, and reduced costs due to elimination of paper. Standardization (of e-filing) as required by Congress will make this the only method that makes business sense. It will also increase patient satisfaction. As regards collection agency problems for beneficiaries, the number of cases is very small but still of great concern. Positions have been created in lead agent offices and larger MTFs to provide dedicated personal assistance to beneficiaries. Closed by reiterating concern that we must balance fully electronic claims payment and decreased costs against increased risk of abuse and loss of case management inherent in HMO structure.

Mr. Backhus's Statement

Began by noting there was much room for improvement, that TRICARE claims processing costs were twice the national average and four times that of Medicare. This was due to the fact that more than half of all claims were still manually reviewed. Gave one example of a provider who submitted claims for echocardiograms (EKG), all of which were reviewed and all of which were eventually paid. Stated that overall less than 25% of treatment claims were electronically filed with TRICARE vs. >85% for Medicare. Decreasing the number of reviews and increasing the percentage of claims filed and paid electronically could significantly reduce costs. Also mentioned DoD/VA sharing agreements, DoD/VA joint pharmaceutical purchasing, and use of the VA's mail-order pharmacy to process refills as sources of additional savings. Acknowledged the great differences between the TRICARE and Medicare programs. Stated that TRICARE could be more proactive in identifying potential fraud cases, reporting that DoD has accepted only 17 cases for fraud investigation. Closed by mentioning that TRICARE moves to centralized appointment scheduling has been a source of frustration and inefficiency because of inconsistent implementation, and patients still find it complex and confusing.

Mr. Meyer's Statement

Presented his credentials as representing the largest claims processing subcontractor in the US, both for Medicare and Tricare. For FY 1999, Medicare claims cost $1.78 each to process vs. $7.50 for TRICARE claims. The most significant reason for the difference is that Medicare is a fee-for-service plan while TRICARE is a HMO. HMOs cost more to process claims, but save money by reducing demand for medical services (through medical case management). Must account for these savings on the benefit side in any discussion of claims processing costs. TRICARE is a 3-tiered plan (Prime, Extra, and Standard). This makes it expensive to administer, and individual contracts in various regions can add benefits and have different reimbursement structures, all of which adds complexity and increases costs. Plus, the number of TRICARE claims inquiries made by providers is four times higher than for Medicare, and Palmetto

Government Benefits Administrators provides toll-free numbers to handle all these inquiries. Pointed out that both TRICARE and Medicare have fixed costs, but that Medicare can spread those costs over a beneficiary population 30-times larger than TRICARE. He confirmed the differences in electronic filing rates noted by the other witnesses, and stated that TRICARE could significantly reduce processing costs by increasing the rates of electronic filing. Pointed out that TRICARE accounted for only about 5% of physician income, however, and thus had far less leverage than Medicare in requiring electronic claims filing. In summary, the great differences between TRICARE and Medicare made it difficult to compare the two, and it might be better to compare TRICARE with FEHBP. Palmetto's research shows that claims processing costs are about the same for TRICARE and FEHBP.

SUMMARY AND Q&A

Mr. Shays asked Dr. Sears for his perceptions of why beneficiaries don't find TRICARE satisfactory. Dr. Sears responded that access (telephones, infrastructure) was the primary dissatisfier, but studies showed that satisfaction increased steadily over time in all regions. When asked why TRICARE did not have a single toll free number nationwide, Dr. Sears pointed out a regional structure initially dictated access on a regional basis, but that TRICARE had established an IPT and was reviewing the requirements for a single access number. Stated that TRICARE was moving towards a VISA or USAA model for claims, advise, and appointments, and would implement "as fast as possible," probably fall of FY 2001. Mr. Shays responded that didn't sound as fast as possible on the number one complaint. Dr. Sears said rate limiting steps were telephone infrastructure and contract modifications. Dr. Sears mentioned a second problem that compounded the first was lack of standardized appointment types. This fall the number of different appointment categories will go from thousands across the country to 10, and this will make free appointment times much more visible to the operators that book appointments. In addition, TRICARE would be distributing a software package, an appointment template analysis tool, that would assist MTFs address local problems. Finally, Dr. Sears discussed access standards for acute, routine, and referral type appointments.

Mr. Thornberry acknowledged the differences between Medicare and TRICARE, but asked what factors could be fixed? Was $8.00 per claim the best we could do? What should the goal be? Mr. Backhus said his analysis suggested $3-4/claim was achievable through technology and elimination of some of the manual review. Mr. Meyer believed that the complexity of the benefit, and the lack of incentive for providers to file electronically, put the lower limit at about $5.00/claim. However, if 100% of claims were filed electronically this would save 26% of claims processing costs. Dr. Sears answered that $2-3/claim savings was achievable once all administrative and infrastructure initiatives were completed.

Mr. Thornberry asked if we were making filing electronically too difficult. Dr. Sears stated we were using the same electronic form as Medicare, and we now permitted providers to use their universal personal identification number (UPIN), same as Medicare. Mr. Meyer added that while we use the same form, there were some additional data requirements relative to Medicare, such as branch of service, etc., unique to the military system. He restated the biggest obstacle was that it cost an additional $0.35/claim to file electronically, and providers were not going to spend that money or go to any extra effort because they were already being paid within 2 weeks for the most part, and TRICARE was such a small part of their practice.

Mr. Backhus was asked to explain the echocardiogram example again. He explained that the requirement to review all EKGs was a pre-TRICARE requirement that simply carried over. The agreed the policy was outdated and that new policy already in place in some regions had eliminated the requirement for review. This is just one example of some manual reviews that could be safely eliminated.

Mr. Spratt asked if the claims processing cost of $7.50 included the costs of handling inquiries and the other administrative overhead costs already mentioned. Mr. Meyer said that it did. If you did not include those costs the cost per claim would come to about $2.00. Mr. Spratt asked if all those provider inquiries were due to the fact that the program was new in some regions. Mr. Meyer responded that he got provider inquiries regarding claims payment status in new regions, but the biggest reason was the TRICARE did not require provides to make such inquiries for claims less than 30 days old via an automated telephone system, like Medicare did. He recounted that many TRICARE providers called every Monday about all outstanding claims, even those that were only a few days old. Mr. Buyer said that for TRICARE not to adopt the Medicare requirement on payment inquiries was absurd.

Mr. Buyer asked Mr. Meyer to explain what "front" costs were. Front costs are the costs associated with actually handling paper claims (mailroom, sorting, data entry, moving, storing, etc.). Front costs accounted for $2.00/claim. With e-filing and processing all those costs would be avoided.

Mr. Buyer pointed out that the House was careful not to mandate e-processing and filing, but did put a marker in the NDAA (50%) to show the intent of Congress. If that goal was not reached, a mandate would be the next step. Asked Mr. Backhus for his opinion as to what incentives might be applied to achieve this goal. Mr. Backhus said Medicare will not pay paper claims in less than 26 days, and perhaps TRICARE could do the same thing as an incentive. Dr. Sears said we had to be careful that incentives for e-filing did not act as disincentives for joining or remaining in provider networks. For example, prompt payment made up for aggressively negotiated reimbursement rates. Dr. Sears added that e-filing requirements were going to be part of the new TRICARE contracts.

Mr. Spratt asked if data standardization was going to be expensive. Dr. Meyer stated that in his opinion HIPA costs will be much higher, perhaps 4x higher, than has been estimated.

Mr. Shays and Mr. Buyer asked the panelists to discuss why, out of 41M claims, DoD has only accepted 17 cases for fraud investigation. Mr. Backhus said GAO saw very little activity at the contractor level in this regard, despite the fact that it was in the contracts and that contractors shared some of the risk (about 20%, the government having 80% of the risk, according to Mr. Meyer). Contractors have not staffed this function adequately, in Mr. Backhus's opinion. Dr. Meyer said the numbers were misleading, as he had literally thousands of claims pending for investigation, and a fraud case might involved thousands of individual claims. Dr. Sears added TRICARE practice of pre-payment auditing meant that questionable claims were returned to the provider and did not get paid at all, and that this reduced the number of paid claims requiring investigation. This practice has prevented fraud and abuse and has saved $96M. In addition, last year DoD implemented "TRICARE Fraud Watch," and will shortly implement AI-based software to further scrutinize claims for patterns suggestive of abuse or fraud. There will also be a fraud hotline number and fraud webpage.

Mr. Buyer cited a GAO report saying potential losses to fraud could be as much as $580M/year, and the fact that only 17 cases were being investigated was "stunning." Mr. Backhus replied that no one really could say how much fraud was or was not going on, and that upper limit was based on some industry estimates that 10-20% of medical insurance/medicare claims were fraudulent or abusive (overbilling, etc). Mr. Backhus also said DoD has been responsive in several ways. DoD does now have a strategic plan supported from the top, and the pre-payment audits are one example.

Mr. Buyer stated that an underlying theme seemed to be complexity of the TRICARE claims process vs. Medicare. Asked how we can streamline and reduce that complexity without reducing the benefit. Mr. Meyer said that simplification efforts were already underway, and cited the dropping or EKG review requirements as an example, as well as using the Medicare forms and provider numbers. Cautioned that, because TRICARE is a benefit-rich HMO and not Medicare, ever if we do all this we won't reach $1.78/claim. Dr. Sears promised to provide the Task Force with a list of initiatives to simplify the process. However, he also cautioned that significant impediments remain, including

open enrollment. Mr. Backhus said that while they have not studied it again, GAO has a positive reaction to what they see TRICARE doing.

Mr. Moran asked if we could not simply tell the providers that we'd pay the $0.35 it costs them to file each claim electronically? Wouldn't that make sense if it saves us $2.00 per claim in front costs? Mr. Meyer stated they could do that, but it would be up the contractor to cut that deal (Palmetto is a subcontrator). Mr. Buyer added that it was something the HASC could look at, as it sounded like smart business.

Mr. Spratt asked Mr. Meyer if his company was being paid on time. Mr. Meyer responded that they had two very big bills, dating from the early TRICARE contracts, that had taken years to resolve. One for $40M was still outstanding. Bill was because estimates of the number of claims in the early contracts was 50% too low. The process has been improved in the newer contracts and the estimates are much closer. Dr. Sears said the issue was nearly resolved.

In response to several members questions, Dr. Meyer addressed the difficulty in establishing provider networks in some localities.

Mr. Thornberry asked Dr. Sears if TRICARE was funded adequately (i.e., had the DoD requested enough money) to fix the claims processing problem. Dr. Sears responded that the MHS did not have enough money to do all the things we need to do.

CLOSING COMMENTS

Mr. Thornberry closed by observing that the Task Force had apparently reached consensus that it was possible to save $2-3/claim. He asked the witnesses to please let the committee know of if implementation of cost-saving measures required any additional authorities.

CM Thornberry closed the hearing at 1230.